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Before the  
Federal Communications Commission  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )  
Simplification of the ) CC Docket No. 92-296  
Depreciation Prescription )  
Process )

**BELL ATLANTIC COMMENTS ON  
FURTHER ORDER INVITING COMMENTS ON  
PROPOSED ACCOUNT LIFE AND SALVAGE RANGES**

With its proposal here to establish ranges for additional accounts, the Commission moves toward completion of the first step in the simplification of the depreciation prescription process.<sup>1</sup> While Bell Atlantic<sup>2</sup> applauds this milestone, more remains to be done in order to achieve true simplification of the depreciation prescription process. First, the Commission should quickly approve the proposed ranges in order to permit 1995 represcription companies to take advantage of the simplification already proposed. These proposed ranges should be adopted as an interim step toward more fundamental depreciation reform.

Second, the Commission should expand upon the reforms adopted to date by eliminating burdensome and unnecessary regulatory requirements. Going forward, the Commission must address the need

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<sup>1</sup> Further Order Inviting Comments (rel. Oct. 11, 1994) ("Further Order").

<sup>2</sup> The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic - Delaware, Inc.; Bell Atlantic - Maryland, Inc.; Bell Atlantic - New Jersey, Inc.; Bell Atlantic - Pennsylvania, Inc.; Bell Atlantic - Virginia, Inc.; Bell Atlantic - Washington, D.C., Inc.; and Bell Atlantic - West Virginia, Inc.

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for true simplification and allow LECs to set their depreciation rates based on Generally Accepted Accounting Principles ("GAAP") using forward looking service lives.

**The Proposed Ranges Fail to Reflect Forward Looking Life Estimates.**

In the Further Order, the Commission proposed basic factor ranges for the accounts not covered in the initial order setting ranges.<sup>3</sup> Despite calls from Bell Atlantic, industry groups and others, the Commission's proposals do not reflect the dynamic nature of the telecommunications industry in the life ranges chosen. For example, the Commission set a projected life range of 20-26 years for buried metallic cable (Account 2423). On behalf of the United States Telephone Association, the Technologies Futures Institute ("TFI") used forward looking analyses and recommended a projection life of roughly 15 years.<sup>4</sup>

The use of more forward looking levels are consistent with Bell Atlantic's own studies. For example, in its 1995 Depreciation Rate Study, Bell Atlantic-Maryland determined that this same

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<sup>3</sup> See *Simplification of the Depreciation Prescription Process*, 9 FCC Rcd 3206 (1994). The Commission appropriately elected to set no ranges for dying accounts (2211, 2215 and 2431) as well as the idiosyncratic Buildings Account (2121). Further Order at ¶¶ 5-7.

<sup>4</sup> Comments of United States Telephone Association, Attachment 2, "Telecommunications Equipment Depreciation -- Looking to the Future," at 17 (filed Dec. 17, 1993). Other accounts show similar disparities.

account has a ~~maximum~~ projection life of 18 years.<sup>5</sup> Similarly, AT&T, which has the freedom to set its depreciation levels closer to a market level, has received preliminary approval for projection life of 15 years.<sup>6</sup> Likewise, cable TV companies have similar flexibility, and the Commission just last week approved a life of 15 years for similar equipment.<sup>7</sup>

As Bell Atlantic's markets become increasingly competitive, unrealistic projection lives become a greater burden. Bell Atlantic's competitors -- cable, competitive access and interexchange providers -- use market driven forward looking depreciation levels, and thereby avoid the burden of future write-offs. The Commission must provide Bell Atlantic and other LECs the same flexibility, and avoid retaining depreciation policies that impose disproportionate regulatory burdens that stifle full and free competition.

**The Proposed Ranges Should Nevertheless be Promptly Approved as an Interim Measure.**

Despite their shortcomings, the proposed ranges do reflect a positive step. If the Commission acts quickly and approves the

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<sup>5</sup> See Bell Atlantic - Maryland, 1995 Depreciation Rate Study, Account Narrative, Buried Cable - Metallic at p. 4 (filed Nov. 10, 1994).

<sup>6</sup> See AT&T May 24, 1994 letter to Fatina Franklin, Chief - Depreciation Rates Branch, attached Three-way Meeting Results, Account 2423.

<sup>7</sup> See *Communications & Cable of Chicago, Inc.; South Chicago Cable, Inc.; Cost of Service Filing To Support Cable Programming Service Rate* CUID Nos. IL1104 (Chicago, IL), IL1105 (Chicago, IL), Memorandum Opinion and Order at 8 (rel. Nov. 9, 1994).

ranges this year, the Commission will allow many of the companies scheduled for 1995 represcription to use the ranges and thereby avoid unnecessary regulatory expense.

At the same time, the Commission has the opportunity to make the use of the ranges more accessible and less burdensome without sacrifice in regulatory oversight. Pending for almost a year is Bell Atlantic's Petition for Reconsideration of the Commission's order adopting alternative procedures for depreciation prescription.<sup>8</sup> While action on Bell Atlantic's call to reconsider the Price Cap Carrier Option for depreciation regulation is critical in order to achieve greater simplification,<sup>9</sup> Bell Atlantic also proposed several minor modifications that would make the basic factor range regulation more effective. By eliminating a study requirement for companies moving an account into an approved range, and by eliminating the burdensome and unnecessary requirement to provide mortality analysis to support curve shapes for accounts in approved ranges, the Commission can further its simplification goals. No party objected to these modest modifications. The suggested changes would eliminate burdensome requirements that serve no regulatory purpose and should be approved as an interim step toward more meaningful reform contemporaneous with approval of the proposed ranges.

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<sup>8</sup> Petition of Bell Atlantic for Reconsideration (filed Dec. 6, 1993) ("Bell Atlantic Petition").

<sup>9</sup> See Bell Atlantic Petition at 1.

**The Commission Should Set a Framework for Further Simplification.**

Bell Atlantic's competitors are free today to set their depreciation rates without the oversight process imposed on Bell Atlantic and other LECs. The Commission should mitigate the unequal burden imposed on the LECs by setting in place a mechanism to reduce or eliminate future depreciation regulation.

In the Depreciation Simplification Order, the Commission committed to revisiting its own decision as circumstances for the LECs change.<sup>10</sup> Moreover, the Commission agreed that the Price Cap Carrier Option "is simpler and provides greater flexibility than any of the other proposed options."<sup>11</sup> While the Commission acknowledged that GAAP places limits on a carrier's freedom to control depreciation, it nevertheless declined to rely solely on GAAP while LECs remain subject to regulation based on earnings constraints.<sup>12</sup> The Commission is currently reviewing its price cap regulation model for LECs.<sup>13</sup> Should the Commission eliminate sharing, the justification for the current model of depreciation

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<sup>10</sup> *Simplification of the Depreciation Prescription Process*, 8 FCC Rcd 8052 at ¶ 5 (1993) ("Depreciation Simplification Order").

<sup>11</sup> Depreciation Simplification Order at ¶ 42.

<sup>12</sup> *Id.* at ¶ 46. Ironically, rather than protect the integrity of the earnings calculation for sharing, the current regulatory model distorts that calculation. By saddling LECs with unrealistically long asset lives, depreciation regulation serves to inflate earnings artificially, and thereby put companies into a sharing position when they should not be sharing based on their true economic returns. See *Price Cap Performance Review*, CC Docket 94-1, Reply Comments of Bell Atlantic, Affidavit of Dr. James H. Vander Weide, ¶¶ 6-9 (filed June 29, 1994).

<sup>13</sup> *Price Cap Performance Review*, 9 FCC Rcd 1687 (1994).

regulation would also be eliminated. The Commission has an opportunity now to put in place a transition mechanism to move quickly to more simplified depreciation regulation and thereby avoid prolonged delay when its price cap regulation is modified to become more progressive.

#### **Conclusion**

It has been over a year since the Commission authorized depreciation simplification. By quickly approving the proposed ranges, the Commission will complete the first step towards the promise of the order. At the same time, the Commission should act on Bell Atlantic's outstanding petition for reconsideration and further its goals of simplification, savings and flexibility. Finally, the Commission should put in place mechanisms that allow

a faster transition to the next phase of depreciation simplification.

Respectfully submitted,

The Bell Atlantic Telephone Companies  
By Their Attorneys

Edward D. Young, III  
Of Counsel

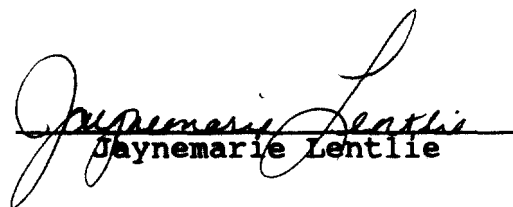
  
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Michael E. Glover  
Edward Shakin

1710 H Street, N.W.  
Washington, D.C. 20006  
(202) 392-1551

Dated: November 14, 1994

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Bell Atlantic Comments on Further Order Inviting Comments on Proposed Account Life and Salvage Ranges" was served this 14th day of November, 1994, by first class mail, postage prepaid, on the parties on the attached list.

  
Jaynemarie Lentlie



Accounting and Audits Division \*  
Federal Communications Commission  
2000 L Street, N.W.  
Washington, D.C. 20554

ITS, Inc. \*  
1919 M Street, N.W.  
Room 246  
Washington, D.C. 20554

William B. Barfield  
M. Robert Sutherland  
BellSouth Telecommunications 4300  
Southern Bell Center  
675 West Peachtree Street, N.E.  
Atlanta, GA 30375

Mark C. Rosenblum  
Robert J. McKee  
Peter H. Jacoby  
AT&T  
295 North Maple Avenue  
Room 3244J1  
Basking Ridge, NJ 07920

R.E. Sigmon  
Vice President - Regulatory  
Affairs  
Cincinnati Bell Telephone  
201 E. Fourth Street, 102-320  
P.O. Box 2301  
Cincinnati, OH 45201

Anne U. MacClintock  
Vice President - Regulatory  
Affairs & Public Policy  
Southern New England Telephone  
227 Church Street  
New Haven, CT 06510

Rowland L. Curry  
Director  
Telephone Utility Analysis Div.  
Public Utility Commission of  
Texas  
7800 Shoal Creek Boulevard  
Austin, TX 78757

Jerry Webb  
Chief Engineer  
Indiana Utility Regulatory Comm'n  
302 W. Washington Street  
Room E306  
Indiana Government Center South  
Indianapolis, IN 46204

Leo M Reinbold  
Susan E. Wefald  
Bruce Hagen  
Public Service Commission  
State Capitol  
Bismarck, ND 58505

Thomas F. Peel  
Utah Department of Commerce  
Division of Public Utilities  
Heber M. Wells Building  
160 East 300 South  
Salt Lake City, UT 84145-0807

Richard McKenna, HQE03J36  
GTE Service Corporation  
P.O. Box 152092  
Irving, TX 75015-2092

Gail L. Polivy  
GTE Service Corporation  
1850 M Street, N.W.  
Suite 1200  
Washington, DC 20036

James T. Hannon  
U S West  
1020 19th Street, N.W.  
Suite 700  
Washington, DC 20036

Edward C. Addison  
William Irby  
Virginia State Corporation  
Commission Staff  
P.O. Box 1197  
Richmond, VA 23209

Mary McDermott  
USTA  
1401 H Street, N.W.  
Suite 600  
Washington, DC 20005

Paul Rogers  
Charles D. Gray  
James Bradford Ramsay  
NARUC  
1102 ICC Building  
P.O. Box 684  
Washington, DC 20044

Emily C. Hewitt  
Vincent L. Crivella  
Michael J. Ettner  
Tanley A. Carp  
General Service Administration  
18th & F Streets, N.W.  
Room 4002  
Washington, DC 20405

Dr. Joseph Kraemer  
Deloitte & Touche  
1900 M Street, N.W.  
Washington, DC 20036

Irwin A. Popowsky  
Philip F. McClelland  
Office of Consumer Advocate  
Commonwealth of Pennsylvania  
1425 Strawberry Square  
Harrisburg, PA 17120

Robert E. Tenner  
Anthony Marquez  
Colorado Public Utilities Comm'n  
Office Level 2 (OL-2)  
1580 Logan Street  
Denver, CO 80203

Laska Schoenfelder  
Kenneth Stofferahn  
James A. Burg  
South Dakota Public Utilities  
Comm'n  
State Capitol Building  
500 East Capitol Avenue  
Pierre, SD 57501

Robert M. Lynch  
Richard C. Hartgrove  
Robert J. Gryzmala  
Southwestern Bell Telephone  
One Bell Center, Suite 3520  
St. Louis, MO 63101

Campbell L. Ayling  
Deborah Haraldson  
NYNEX  
120 Bloomingdale Road  
White Plains, NY 10605

James P. Tuthill  
Lucille M. Mates  
Pacific Companies  
140 New Montgomery Street  
Room 1526  
San Francisco, CA 94105

James L. Wurtz  
Pacific Companies  
1275 Pennsylvania Avenue, N.W.  
Washington, DC 20004

Ron Eachus  
Joan H. Smith  
Roger Hamilton  
Oregon Public Utility Comm'n  
550 Capitol Street, N.E.  
Salem, OR 97310-1380

Austin J. Lyons, Director  
Telecommunications Division  
Tennessee Public Service Comm'n  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Telecommunications Division  
Washington Utilities and  
Transportation Comm'n  
Chandler Plaza Building  
1300 S. Evergreen Park Dr., SW  
Olympia, WA 98504-8002

Ronald G. Choura  
Policy Division  
Michigan Public Service Comm'n  
6545 Mercantile Way  
P.O. Box 30221  
Lansing, MI 48909

Maribeth D. Snapp  
Deputy General Counsel  
Oklahoma Corporation Comm'n  
Public Utility Division  
400 Jim Thorpe Office Building  
Oklahoma City, OK 73105

Scot Cullen, P.E.  
Administrator  
Telecommunications Division  
Public Service Comm'n of  
Wisconsin  
4802 Sheboygan Avenue  
Madison, WI 53707-7854

Eric B. Witte  
Assistant General Counsel for the  
Missouri Public Service Comm'n  
P.O. Box 360  
Jefferson City, MO 65102

Stephanie Miller  
Director of Utilities  
Idaho Public Utilities Comm'n  
Statehouse  
Boise, Idaho 83720-6000

Peter Arth, Jr.  
Edward W. O'Neill  
Ellen S. Levine  
505 Van Ness Avenue  
San Francisco, CA 94102

John T. Lenahan  
Barbara J. Kern  
Ameritech Operating Cos.  
2000 West Ameritech Center Dr.  
Room 4H88  
Hoffman Estates, IL 60196-1025

General Counsel  
New York State Department of  
Public Service  
Three Empire State Plaza  
Albany, NY 12223

Jay C. Keithley  
United/Central Telephone  
1850 M Street, N.W.  
Suite 1100  
Washington, DC 20036

W. Richard Morris  
United/Central Telephone  
P.O. Box 11315  
Kansas City, MO 64112

Elizabeth Dickerson  
Manager, Regulatory Analysis  
MCI Telecommunications Corp.  
1801 Pennsylvania Avenue, N.W.  
Washington, DC 20006

Michael P. Gallagher, Director  
Division of Telecommunications  
State of New Jersey  
Board of Regulatory Commissioners  
CN 350  
Trenton, NJ 08625-0350

Thomas E. Taylor  
Frost & Jacobs  
Counsel for Cincinnati Bell  
2500 PNC Center  
201 East Fifth Street  
Cincinnati, Ohio 45202

Alan J. Gardner  
California Cable Television  
Association  
4341 Piedmont Avenue  
P.O. Box 11080  
Oakland, CA 94611

Frank W. Lloyd  
Kecia Boney  
Mintz, Levin, Cohn, Ferris,  
Glovsky and Popeo, P.C.  
Counsel for California Cable  
Television Association  
701 Pennsylvania Avenue, N.W.  
Suite 900  
Washington, D.C. 20004

JoAnn S. Hanson  
Assistant Commissioner  
Telecommunications  
Minnesota Dept. of Public Service  
Suite 200  
121 7th Place East  
St. Paul, MN 55101-2145

\* BY HAND